

Washington State Auditor's Office
Audit Report

**Wahkiakum County Conservation
District
(Wahkiakum Conservation District)**

Audit Period
January 1, 1998 through December 31, 1999

Report No. 62253

Issue Date
May 18, 2001



Washington _____
State Auditor

Brian Sonntag

Audit Summary

Wahkiakum Conservation District January 1, 1998 through December 31, 1999

ABOUT THE AUDIT

This report contains the results of our independent audit of the Wahkiakum Conservation District for the period January 1, 1998, through December 31, 1999.

The District was not scheduled for an audit until the year 2001 for the years 2000, 1999 and 1998. However, on April 13, 2000, we were notified of potential improprieties in the preparation of timesheets and other misuse of District assets by employees and management. The main concern centered around District employees being forced to charge payroll costs to state grants when the work had not been performed. We felt the significance of the concerns, as well as our recent audit experience in other conservation districts, required that we examine these records sooner to ensure any possible misuse of public resources would be discovered in a timely manner.

Our work focused on determining whether the District complied with state laws and regulations and its own policies and procedures. We also reviewed internal controls established by the District's management were reviewed and evaluated.

RESULTS

For the audit period 1998 through 1999, the District records were not sufficient to enable us to form an opinion on whether the financial statements were accurate and complete. We further identified two areas significant enough to report as findings:

- The District's internal control system for requesting reimbursements from granting agencies, payments to employees and vendor payments is inadequate.
- The District lacked an adequate system of accounting for revenues and expenditures and was unable to produce accurate and complete financial statements.

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Description of the District

Wahkiakum Conservation District January 1, 1998 through December 31, 1999

ABOUT THE DISTRICT

The Wahkiakum Conservation District was established in 1940 for the purpose of promoting conservation services and education to residents of Wahkiakum County. The District is supported primarily through state grants, basic funding provided by the Washington State Conservation Commission and Wahkiakum County. A Board of five Supervisors, three of whom are elected by the landowners within the District boundaries and two appointed by the Washington State Conservation Commission, administers the District. The Board of Supervisors appoints a District Manager to direct day-to-day operations of the District. The District operates on an annual budget between \$250,000 and \$350,000 and has four full-time employees.

APPOINTED/ELECTED OFFICIALS

Board of Supervisors (1999):
Chair

Joe Florek Jr.
Cynda Webb
Mary Lou Riley
Colleen Haley
Norman Bolton

This official also served during the audit
period:

Robert Larson

ADDRESS

District

957 Steamboat Slough Road
Skamokawa, WA 98647

Mailing Address

P.O. Box 67
Cathlamet, WA 98612-0067

Audit Areas Examined

Wahkiakum Conservation District January 1, 1998 through December 31, 1999

In keeping with general auditing practices, we do not examine every portion of the Wahkiakum Conservation District's financial activities during each audit. The areas examined were those representing the highest risk of noncompliance, misappropriation or misuse. Other areas are audited on a rotating basis over the course of several years. The following areas of the District were examined during this audit period:

LEGAL COMPLIANCE

We audited the following areas for compliance with certain applicable state and local laws and regulations:

- Authorization and validity of expenditures
- Open Public Meetings Act
- Public records management
- Ethics/conflict of interest laws and policies
- Cash and investments
- Grant compliance

INTERNAL CONTROL

We evaluated the following areas of the District's internal control structure:

- Cash receipting
- Expenditures
- State grant fiscal management
- Payroll
- Financial reporting

FINANCIAL AREAS

In addition to the financial-related work listed in other categories, we audited the following areas:

- Overall presentation of the financial statements
- Cash and investments for existence
- Revenues and expenditures

Audit Overview

Wahkiakum Conservation District January 1, 1998 through December 31, 1999

AUDIT HISTORY

Typically, we audit the Wahkiakum Conservation District every three years. However, the potential significance of the payroll concerns, as well as our recent audit experience in other conservation districts, prompted us to examine the District's records to ensure any possible misuse of public resources would be discovered in a timely manner. The past audit of the District did not contain any findings.

CONCLUSIONS

In some areas we examined, the District complied with state laws and regulations and its own policies. However, we have identified two areas significant enough to report as findings. They are discussed in the findings section of this report.

Prior to the audit, we were notified of concerns regarding the preparation of timesheets and other possible misuse of District assets by employees and management. The main concern centered around District employees being directed to charge payroll costs to state grants when the work had not been performed. While our initial efforts focused on this assertion, we found no evidence it occurred. We did, however, find the District has weaknesses in its system and methods of recordkeeping serious enough to preclude us from expressing an opinion on their accuracy and completeness.

We also found this audit to be time consuming and challenging. Key District staff created an environment that made it difficult to obtain information and analyze District documentation. Without adequate assistance from District personnel, the timeliness and cost of the audit was significantly impacted.

We would like to extend our appreciation to the State Conservation Commission for the assistance and cooperation during our audit. They demonstrated a commitment to assist the District in improving conditions identified and maintained a constructive mindset directed at resolving issues. We encourage officials of the District to continue working closely with the State Conservation Commission in the future to resolve the audit issues.

Schedule of Audit Findings

Wahkiakum Conservation District January 1, 1998 through December 31, 1999

- The District's internal control system for requesting reimbursements from granting agencies, payments to employees and vendor payments is inadequate.**

Background

The Wahkiakum Conservation District operations are funded through state grants, basic funding provided by the Washington State Conservation Commission and Wahkiakum County. For the years 1998 and 1999, the District operated on a budget of between \$250,000 and \$350,000, 75 percent to 80 percent of which was state grant money. The District had excess funding at the end of 1999 in the form of cash and investments of \$152,000.

This examination revealed state and contract compliance violations and numerous internal control weaknesses that placed public funds at risk of misuse and/or abuse. To ensure we had a representative and current example of costs associated with the date of the allegations, we selected the months of September, October, November, and December 1999 to review for proper grant, voucher and employee reimbursements.

Description of Condition

State grants and Washington State Conservation funding agreements allow districts to charge allowable costs to grant programs in several different ways. For example, costs charged to these grants can be direct charges or indirect/overhead charges. Examples of these methods and the allowable, categorical costs making up these methods are well described in grant agreements. Our review revealed internal control weaknesses and compliance violations regarding the allowability of these costs and the methods used to apply these costs. We also found weaknesses in supporting documentation. This resulted in questioned costs for these grants and other District funding sources. Further, due to the nature and pervasiveness of the control weaknesses identified in the District's recordkeeping and cost accounting for grants and other District funds, improper charges could be more significant over time.

Direct payroll charges:

The District directly charges payroll costs using an allowable labor rate to most of its grants. The labor rate used by the District incorporates a percentage of sick, vacation, holidays, medical benefits, etc. Although we found the District has properly calculated this rate, the District had also directly charged grants for the same costs as those already a part of the approved labor rate (i.e., such as sick, vacation, holidays and benefits). This has resulted in the grants being over-billed, as shown below, for the months of September, October, November and December 1999:

Grant Name	Grant Number	Grantor	Amount Overcharged
Implementation	99-IMP	State Conservation Commission	\$3,097.92
Conservation Reserve Enhancement Program	00-CREP	State Conservation Commission	\$203.76
Joint Watershed Restoration	G0099144	Department of Ecology	\$2,177.08

Other Direct Charges:

Our review further revealed the District does not properly allocate direct costs among its grants. This is caused by two conditions. First, we found no description or support for the amount allocated for gasoline expenditures. Second, the amount actually allocated to these grants was not supported.

When asked how the District allocates gasoline costs among the various projects, employees stated that they are directly charged to grants based on available funding. Our review of cost allocations supported the explanation from District employees. Below is an illustration showing that gasoline expenditures charged to the Conservation Reserve Enhancement Program (CREP) and the Watershed Restoration Grant for the months of September, October and November did not correspond to direct payroll charges. For these months, the District had a total of \$696.11 in gasoline charges. Based on District records, we were unable to ascertain whether these charges were appropriate grant related costs. A notation of 50/50 means an even distribution between the CREP Grant and the Watershed Grant.

Employee	Month	Direct payroll hours charged to CREP Grant	Direct payroll hours charged to Watershed Restoration Grant	Gas charged	Allocation of gas charges
Resource Technician 1	Sep-99	18	0	\$56.95	Watershed
Resource Technician 1	Oct-99	77	6	\$81.20	50/50
Resource Technician 1	Nov-99	89	0	\$82.95	50/50
Office Assistant	Oct-99	25	0	\$141.00	50/50
Office Assistant	Nov-99	27	13	\$110.50	50/50
Resource Technician 2	Sep-99	46	10	\$38.00	Watershed
Resource Technician 2	Oct-99	0	10	\$19.00	50/50
Resource Technician 2	Nov-99	0	0	\$47.01	50/50
Resource Technician 3	Sep-99	50	10	\$28.00	Watershed
Resource Technician 3	Nov-99	0	0	\$25.50	50/50

Indirect charges:

Some grants received by the District allow for indirect expenses to be charged, which is a common and acceptable practice. Several different, but allowable indirect cost methods were discovered. First, the grants administered through the State Conservation Commission allow up to an additional 3 percent of direct labor costs to be charged as discretionary expenses. These discretionary expenses require supporting documentation. However, our review of the months of September, October and November 1999 for the Implementation Grant #99-IMP and the Conservation Reserve Enhancement Program #00-CREP, revealed that in both programs, \$488.42 in expenditures using this method were unsupported.

The Joint Watershed Restoration Grant #G0099144, administered through the state Department of Ecology, provides for the District to charge 25 percent of direct labor as overhead. Overhead costs include office and operating supplies, basic telephone charges, operating rentals and leases, to name a few. During our review, we discovered the District is calculating the 25 percent

correctly. However, the District is also in some instances, directly charging the same costs that were already included in the overhead rate. For the month of September, October, and November 1999, we calculated the following:

Month	Allowable 25% Overhead Charged	Additional Over-charged Overhead Costs
September	\$1,669.21	\$1,027.91
October	\$1,774.00	\$940.09
November	\$1,595.66	\$437.65

Voucher and Disbursement Process:

The District's inadequate internal controls over the processing of payments was insufficient to prevent or detect unallowable expenditures or a misappropriation of public assets. We examined the blanket vouchers approved by the Board of Commissioners in open public meetings during the months of September, October and November 1999, which were representative in nature. From the disbursements selected, the following weaknesses were noted:

- We found expenditures that lacked original documentation or sufficiently detailed documentation to support payments. We noted reimbursement claims that had been written on scratch paper from employees requesting reimbursement for an unknown purpose; duplicate payments to employees and vendors; payments made from photocopies of receipts; and payments made for which there was no supporting documentation. In one example, we discovered no supporting documentation for payments to another conservation district for reimbursement of labor charges in the amounts of \$9,232.65, \$4,147.65, \$4,780.80 and \$3,568.32. In another example, we noted an employee received payment from the petty cash fund of \$28.08 for an oil change. That same employee later was directly reimbursed for the same expense.
- The District does not have policies and procedures in place that outline how expenditures should be approved. Without proper approval of all expenditures, the District cannot ensure that all payments are appropriate and legitimate business expenses. We noted several expenditures paid by the District that lacked approval. In many cases, these expenses were also reimbursed from grant money.
- The District does not have a policy outlining when gasoline expenses are allowable, which may result in the District paying for gasoline that is not used for valid business purposes. Questionable gasoline expenditures were noted. There was no documentation that stated the business purpose of the gasoline.

Cause of Condition

District supervisors and employees do not appear to have an adequate understanding of proper grant accounting practices. The District also does not have an adequate system to allocate and track costs charged to grants. Furthermore, the District does not consistently require adequate supporting documentation showing the receipt and purpose of goods and services purchased.

Effect of Condition

The District requested and received excess grant reimbursements. The District's inaccurate allocations of costs places public funds at risk and violates state law and grant provisions. Without a system to adequately track costs charged to a grant, the District cannot be certain that grants are charged for actual costs incurred. Furthermore, without supporting documentation, the District cannot be sure that all District expenditures are legitimate, due and unpaid obligations of

the District. Ultimately, the District cannot assure grantors that program funding was used to benefit the program objectives.

Recommendations

We recommend the District:

- Establish policies and procedures for time reporting. These procedures should include guidelines for recording sick, vacation and holiday pay under a separate line item to ensure grants that are charged using a labor rate are not double billed.
- Develop a system to bill grants for actual charges and a system to adequately account for and monitor grant budgets and expenditures. The District should review grant contracts and only charge allowable costs to the grants.
- Adopt purchasing policies to address allowable District expenditures and how expenditures are to be monitored and reviewed. Expenditures should be supported by an original receipt and detailed supporting documentation that includes the purpose of the expenditure.
- Train management and staff on these policies and procedures. The Board should monitor their effectiveness.
- Work with the State Conservation Commission and Department of Ecology to resolve the issues identified.

District's Response

See District's response following the Findings.

Auditor's Remarks

We appreciate the District's response to these issues. We will review these conditions during our next audit.

Applicable Laws and Regulations

The *Revised Code of Washington* (RCW) 42.24.080 states in part:

All claims presented against any county, city, district, or other municipal corporation or political subdivision by persons furnishing material, rendering services or performing labor, or for any other contractual purpose, shall be audited, before payment, by an auditing officer elected or appointed pursuant to statute . . . Such claims shall be prepared for audit and payment on a form in the manner prescribed by the state auditor. The form shall provide for the authentication and certification by such auditing officer that the materials have been furnished, the services rendered, or the labor performed as described, and that the claim is just, due and unpaid obligation against the political subdivision

RCW 43.09.200 states in part:

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income and the amounts due therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction

RCW 42.24.090 states in part:

No claim for reimbursement of any expenditures by officers or employees of any municipal corporation or political subdivision of the state for transportation, lodging, meal or any other purpose shall be allowed by any officer, employee or board charged with auditing accounts unless the same shall be presented in detailed accounts

RCW 43.09.210 states in part:

. . . no department, public improvement, undertaking, institution, or public service industry shall benefit in any financial manner whatever by appropriation of fund made for the support of another.

Washington State Conservation Commission District Procedure Manual Part 3-E 3 Percent Discretionary Budget Category states in part:

Districts may claim expenses under this category only if it accounts for costs not clearly identified with a particular objective as budget object categories supported by backup documentation . . . The District must keep accounting records and documents of the date and type of expenditures; and make the receipts or records available upon request to state auditors.

Washington State Conservation Commission District Procedure Manual Appendix E Composite Hourly Rate states in part:

The composite hourly rate will include a portion of all employer costs (not just gross wages), and thus will include a portion of annual, sick, and holiday pay as well as the employer portion of state and federal taxes and employee insurance and retirement costs . . . The District is paid for annual, sick, holiday, and comp leave as it is earned, not when it is taken . . . Vouchering for salaries and benefits is simplified; the district refers to the employee's time sheet, extracts only those hours actually worked on grant tasks, then multiplies those hours by the 'composite hourly rate'.

Department of Ecology Administrative Requirements for Ecology Grants and Loans – Computing Overhead Charges states in part:

The recipient may charge as overhead an amount equal to 25 percent of salaries and benefits of receipt employees for time devoted specifically to the project. That amount is intended to include all costs in the categories below, which generally are not direct billed . . .

Costs Included in the Overhead Rate:

- Office and operating supplies (office stationary/supplies, forms, cleaning supplies)
- Fuel consumed to generate power or provide heat.
- Professional Services such as auditors, management consultants, legal, etc.
- Communication (includes basic telephone and postage charges)

- Operating rentals and leases (rental costs for facilities or equipment such as buildings or copy machines)
- Insurance (fire, casualty, theft, bonds, liability, etc.)
- Utility services
- Repairs and maintenance (labor and supplies to repair to maintain real or personal property)
- Miscellaneous (subscriptions, memberships, printing and binding, etc.)
- Intergovernmental professional services
- Capital outlays
- Intergovernmental interfund services

Schedule of Audit Findings

Wahkiakum Conservation District January 1, 1998 through December 31, 1999

2. The District should maintain accurate and complete accounting records.

Description of Condition

Our audit of the Wahkiakum Conservation District revealed significant weaknesses in the District's financial records. The District does not maintain an adequate system of accounting, which would include accurate recording of revenues and expenditures. We could not obtain sufficient information and documentation to satisfy ourselves by means of other auditing procedures to ensure the District properly accounted for all its revenues and expenditures.

Cause of Condition

These weaknesses appear to be the result of a lack of understanding by the Business Manager of proper accounting and records management. Furthermore, the Conservation District Board failed to provide management oversight or monitoring of the District's financial records.

Effect of Condition

Failure to maintain accurate and complete accounting records resulted in the District's inability to produce valid annual reports for 1998 and 1999. Therefore, we are unable to attain reasonable assurance that the District's financial statements and its grant schedules for the period January 1, 1998, through December 31, 1999, were accurate and complete. Additionally, these weaknesses increase the risk that the District's assets could be misappropriated.

Recommendations

We recommend the District implement an adequate system of accounting necessary to properly record and report the use of public funds. Continued training should be provided to ensure staff understands and maintains accurate and complete financial records. We further recommend the Board of Supervisors provide sufficient oversight and monitoring of the District's fiscal activities.

District's Response

See District's response following the Findings.

Auditor's Remarks

We appreciate the District's response to this issue. We will review the condition during our next audit.

Applicable Laws and Regulations

The *Revised Code of Washington* (RCW) 43.09.200 states in part:

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income and the amounts due therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details for the financial administration of public affairs.

District's Response

Wahkiakum Conservation District January 1, 1998 through December 31, 1999

The Wahkiakum Conservation District agrees with the State Auditor's findings and is making the necessary changes to our policies and procedures to improve our District. When the next audit occurs we will pass with flying colors.

The District has always, and will continue to, work with the Washington Conservation Commission, Department of Ecology, other granting agencies, and the State Auditor to ensure all procedures and policies are followed and improved upon as necessary.

The District is working to develop a plan that will include:

- 1. Improve policies and procedure for time recording i.e., sick, vacation and holiday pay.*
- 2. Improve policies to monitor grant and budget expenditures.*
- 3. Review District purchases and expenditures.*
- 4. Work with the Washington Conservation Commission and Department of Ecology to resolve issues identified by the State Auditor's report.*

In summary, this audit has been a long and arduous experience. The District has learned a lot as a result of the audit. The District is committed to cooperatively resolve any and all issues.

Our District's long-term goal is to comply with state law and be of service to our local community.

Independent Auditor's Report on Compliance with State Laws and Regulations

Wahkiakum Conservation District January 1, 1998 through December 31, 1999

Chair of the Board
Wahkiakum Conservation District
Skamokawa, Washington

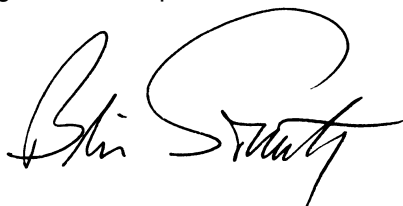
We were engaged to audit the accompanying financial statements, as listed in the table of contents, of the Wahkiakum Conservation District, Wahkiakum County, Washington, as of and for the years ended December 31, 1999 and 1998. However, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to above. Our disclaimer opinion is further detailed in our Independent Auditor's Report on Financial Statements.

We also attempted to perform tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the District complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office.

The District's records did not permit the application of other auditing procedures that would allow us to form an opinion on compliance with state laws and regulations and local policies.

Since the Wahkiakum Conservation District was not able to provide sufficient documentation and we were unable to apply other auditing procedures to satisfy ourselves as to the District's compliance with these laws, regulations, and policies noted above, the scope of our work was not sufficient to express, and we do not express, an opinion on the District's compliance with these requirements.

This report is intended for the information of management and the Chair of the Board and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



BRIAN SONNTAG, CGFM
STATE AUDITOR

August 4, 2000

Independent Auditor's Report on Financial Statements

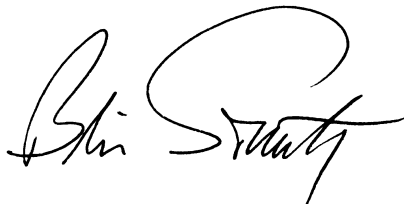
Wahkiakum Conservation District January 1, 1998 through December 31, 1999

Chair of the Board
Wahkiakum Conservation District
Skamokawa, Washington

We were engaged to audit the accompanying financial statements and supporting schedules of financial assistance, as listed in the table of contents, of the Wahkiakum Conservation District, Wahkiakum County, Washington, as of and for the years ended December 31, 1999 and 1998. These financial statements are the responsibility of the District's management.

We could not find sufficient evidence to support cash balances, operating revenues, operating expenses, and state grant funds reported on the Wahkiakum Conservation District financial statements and supporting schedules of financial assistance. The District does not maintain an adequate system of accounting, which would include accurate recording of revenues and expenditures.

Since the Wahkiakum Conservation District was not able to provide adequate support for these balances and we were unable to apply other auditing procedures to satisfy ourselves as to the amounts of these financial transactions noted above, the scope of our work was not sufficient to express, and we do not express, an opinion on these financial statements or supporting schedules of financial assistance.



BRIAN SONNTAG, CGFM
STATE AUDITOR

August 4, 2000

Financial Statements

Wahkiakum Conservation District January 1, 1998 through December 31, 1999

FINANCIAL STATEMENTS

Detail of Revenue and Other Resources – 1999
Detail of Revenue and Other Resources – 1998
Detail of Expenses and Other Uses – 1999
Detail of Expenses and Other Uses – 1998
Resources and Uses Arising From Cash Transactions – 1999
Resources and Uses Arising From Cash Transactions – 1998
Notes to Financial Statements – 1999 and 1998

ADDITIONAL INFORMATION

Schedule of State Financial Assistance – 1999
Schedule of State Financial Assistance – 1998